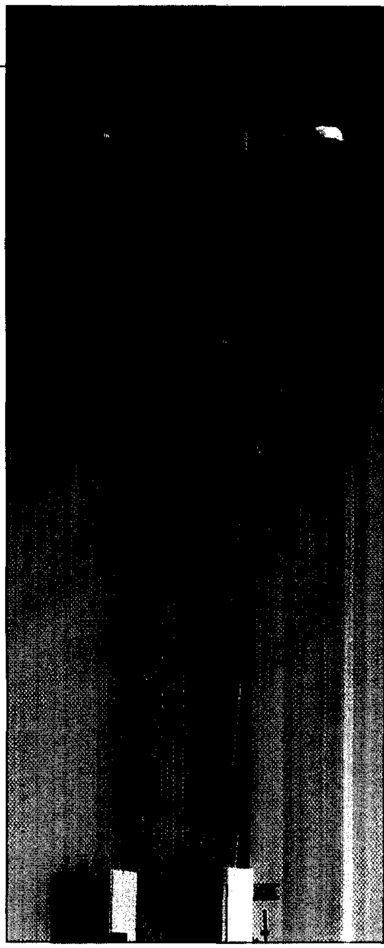
SR Telecom

1995 ANNUAL REPORT



corporate profile

SR Telecom Inc. (SRT) was founded in 1981 and became a public Company in 1986. SRT is a world-leader in point-to-multipoint TDMA microwave radio systems. The Company designs, manufactures, markets, installs and services these systems which are used in both public and private telephone and data networks in some 80 countries.

SRT's advanced digital TDMA microwave systems are an affordable and reliable way of providing high quality telephone service. The products offer an effective alternative to the prohibitive costs of traditional wire and cable systems. In addition, the Company is a primary source for radio products used in both public and private voice and data networks by a variety of customers in both urban and rural settings.

SRT has achieved its world-class position by creating reliable, high quality equipment that serves the needs of its customers. It has maintained this position through its commitment to quality and service.

The Company owns Apollo Microwaves Limited of Montreal. Acquired in 1986 and operated as an independent subsidiary, Apollo designs, develops and manufactures specialized passive microwave components for clients around the world.

SR Telecom employs 938 people in 13 countries; 488 in manufacturing, 221 in customer service, 172 in research and development and 57 in general management and administrative office functions. SRT's corporate head office, research and development and manufacturing facility is in St. Laurent, Quebec. It has a second manufacturing and research and development facility in Kanata, Ontario. Project and regional sales and service offices are located strategically around the world. At the end of 1995, SRT had offices in Fort Lauderdale, Denver, Mexico, Stockholm, Tunis, Amman, Nairobi, Manila, Bangkok, Shanghai, Beijing, and Djakarta.

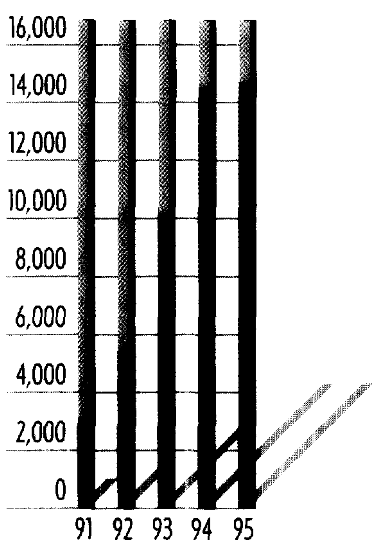
Company shares are traded on the Montreal and Toronto stock exchanges under the symbol SRX.

contents

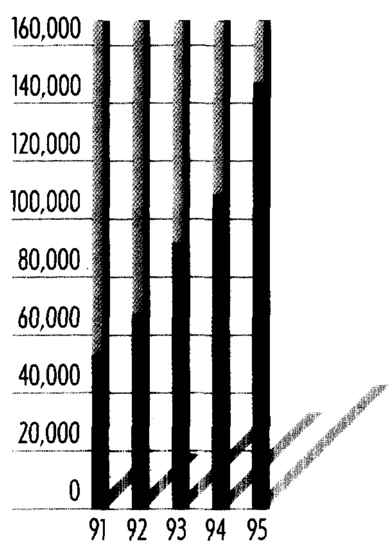
financial highlights

YEARS ENDED DECEMBER 31 ($ in thousands except per share amounts)	1995	1994	% Change
Earnings Information			
Sales	**$ 143,112**	107,976	32.5 %
Net Earnings	**$ 14,631**	14,533	0.7 %
Earnings Per Share [1]	**$ 0.41**	0.42	(2.4) %
Backlog	**$ 134,000**	79,100	69.4 %
Sales Per Employee	**$ 153**	165	(7.3) %
Financial Ratios (%)			
Return on Sales	**10.2**	13.5	
Return on Average Equity	**16.3**	24.8	
Return on Total Assets	**10.4**	11.6	
Financial Position			
Total Assets	**$ 140,275**	125,070	12.2 %
Working Capital	**$ 52,707**	64,181	(17.9) %
Cash (Bank indebtedness)	**$ (171)**	(6,638)	(97.4) %
Long Term Debt	**$ –**	2,561	– %
Shareholders Equity	**$ 95,084**	83,894	13.3 %
Other Information			
Average No. of Shares Outstanding [1] (000)	**35,592**	34,547	
Employees	**938**	656	

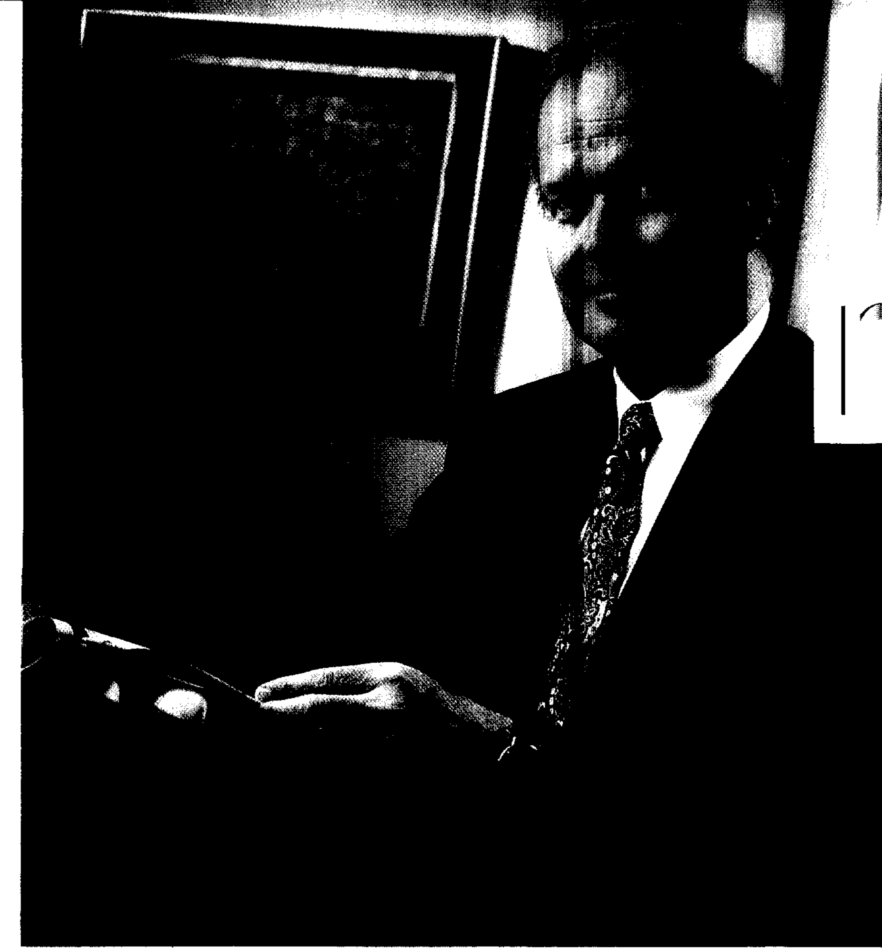
[1] *After giving effect to the common share issue in April 1994 of 3,200,000 shares for a gross consideration of $40,000,000 (net $38,802,000).*



Net Earnings
(in thousands of dollars)



Sales
(in thousands of dollars)



Pa[illegible] A. D[illegible]

chairman's

message

To Our Shareholders

1995 will stand out as an important year for SR Telecom in its history of growth and corporate development. In my overview for the Annual Report, I will highlight some of our more significant achievements. First, however, I feel it is appropriate to review SR Telecom's business, particularly for those of you who have either just become a shareholder or are considering an investment in our company.

SRT's Market

Our TDMA wireless microwave products are used to connect telephone subcribers to local telephone exchanges, most often in rural areas where providing service by conventional wire and cable is impractical. Our products often bring urban quality telephone service to a region for the very first time. The local exchange connects to a national network, which in turn is linked with the global network.

The majority of our customers in such cases are national telephone companies who demand precision in performance, reliability and compatibility with the world network while operating under every imaginable environmental condition. It is a tribute to our R&D, quality and manufacturing operations that our products are recognized worldwide for their excellence in meeting these requirements.

A lesser known but equally important market for SRT's products is their application in voice and data telecommunications networks, both public and private. These networks which may be located in urban or remote regions exploit the flexibility, reliability and cost effectiveness of the SR500 family. These features are very attractive to users who need to have their telecommunications network up and running in short order but nevertheless require a high level of performance. Typical customers in this group include electricity suppliers, gas and pipeline companies, oil and resource exploration groups, specialized common carriers for voice or data, as well as business operations with a number of sites to link together.

Company Growth in 1995

There were two especially notable events in SRT's progress in 1995:

- The construction in Kanata, Ontario, of a new, 94,000 square foot manufacturing and R&D facility.
- The announcement of a number of important new additions to SRT's product lines at the Telecom '95 exhibition in Geneva, Switzerland.

Both of these events were geared to meet the demands of a continually growing market in SRT's chosen niche.

The new products are tightly focused around the core business strengths of the Company and we are confident that they will have a major impact on our long term future. Further details about these products and the promise they hold can be found elsewhere in this Report.

We see that the opportunities opened to us in 1995 provide fresh foundations for an increasingly successful future. That confidence is not ours alone—it is a feeling shared by others:

- The $198 million in new orders received this year (including the $75 million from AT&T for Saudi Arabia) from 58 countries illustrates the continued confidence our customers have in us.
- For the second time, Forbes Magazine cited SR Telecom as one of the best small companies in the world.
- Our President and CEO, Ron Couchman, was honoured this year by École des hautes études commerciales de Montréal (H.E.C.), North America's foremost French business school, with a prize in recognition of excellence in exporting and for a Quebec-based business leader who has achieved great success on the international scene.

Recognition of this kind is clear evidence of SR Telecom's performance and promise.

A Changing World

The rapidly changing nature of the telecommunications industry throughout the world offers SRT increased opportunity and potential new markets for continued growth. Both the scope and importance of telecommunications in the world economy have increased dramatically over the past decade and SRT has staked out its territory as an important sectoral leader.

The new products are tightly focused around the core business strengths of the Company and we are confident that they will have a major impact on our long term future.

We can look to two positive new trends to support an important phase of development for our products around the globe. Privatization and deregulation are modern phenomena and important developments for SR Telecom. Increasing privatization of telephone companies in major markets means a renewed infusion of capital into these companies. This situation results in a stimulation of the entire telecommunications industry. These newly privatized organizations are then better able to improve services and provide new ones in their regions. As a result of this, SRT has already seen an increase and stands to see further expansion in the reach and demand for its products in world markets.

The second important development—a greater international trend towards deregulation of the provision of telecommunication services—often occurs in parallel with privatization. For SRT, deregulation means many telecommunication service providers now have competition and some business or industrial users may choose to own and operate their own private networks.

The result of all these changes is that the number of potential customers for our products increases. Furthermore, increased competition also brings about specialized sub-sectors—such as data service providers—which again provide SR Telecom with additional potential markets.

SR Telecom does not exist in a vacuum, however, and the opportunities presented to us are likewise presented to our competitors. The challenges therefore include not only the challenge of growth itself but also that of maintaining our position of world leadership.

The rapidly changing nature of the [illegible] SRT increased [illegible] and potential new [illegible] continued growth.

The Challenge of Rapid Growth

Rapid growth brings with it many challenges and demands. SRT has experienced an average year on year revenue growth rate of over 30% since 1988. The challenge such growth presents to an organization is well recognized at SRT, involving as it does all the increased demands for resources both financial and human. As the transition from a small to a medium size company proceeds, this issue and taking the necessary steps to deal with it occupy a significant portion of both the board of directors' and senior management's time. Success in meeting these challenges will be one of the cornerstones of the company's future prospects.

The Heart of the Business

The success of any major business is primarily contingent on the effectiveness of its employees. None of our technology is raw material. Our exceptional line of products, our world-class on-the-ground customer support and service are a reflection of the employees of SR Telecom. We face each challenge with the confidence and competence of our highly skilled workforce.

When, for example, a new line of products is launched, sold, installed and delivered on time, it is our people who are to be commended. People are the greatest resource SR Telecom has and the results presented in this Annual Report attest to their efforts.

SRT—your company—has opened up a new chapter in its international growth and sales. We have witnessed an important and vital year of expansion in 1995. With our new products and new facilities, we are laying the foundation for years to come.

As you will see in the President's Review of Operations and the Management's Discussion and Analysis sections, all the ingredients are in place for continued progress and achievement in a growing and competitive marketplace.

P.A. Dickie

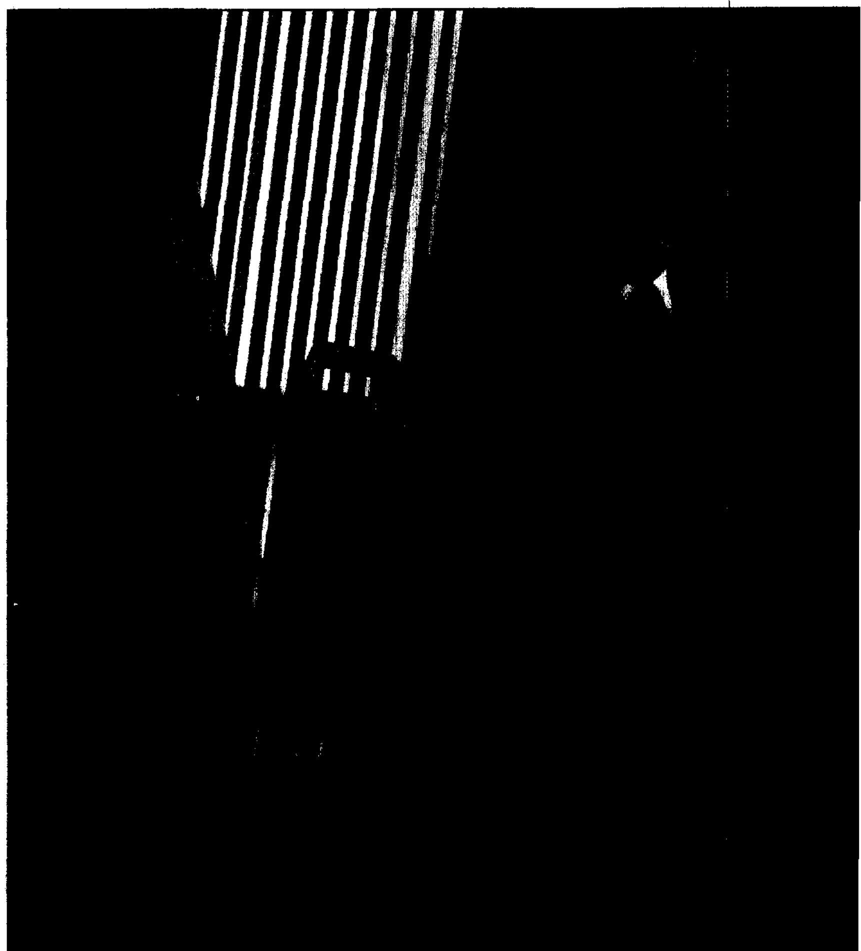
PAUL A. DICKIE
Chairman of the Board

president's review of

operations

Our Performance in 1995

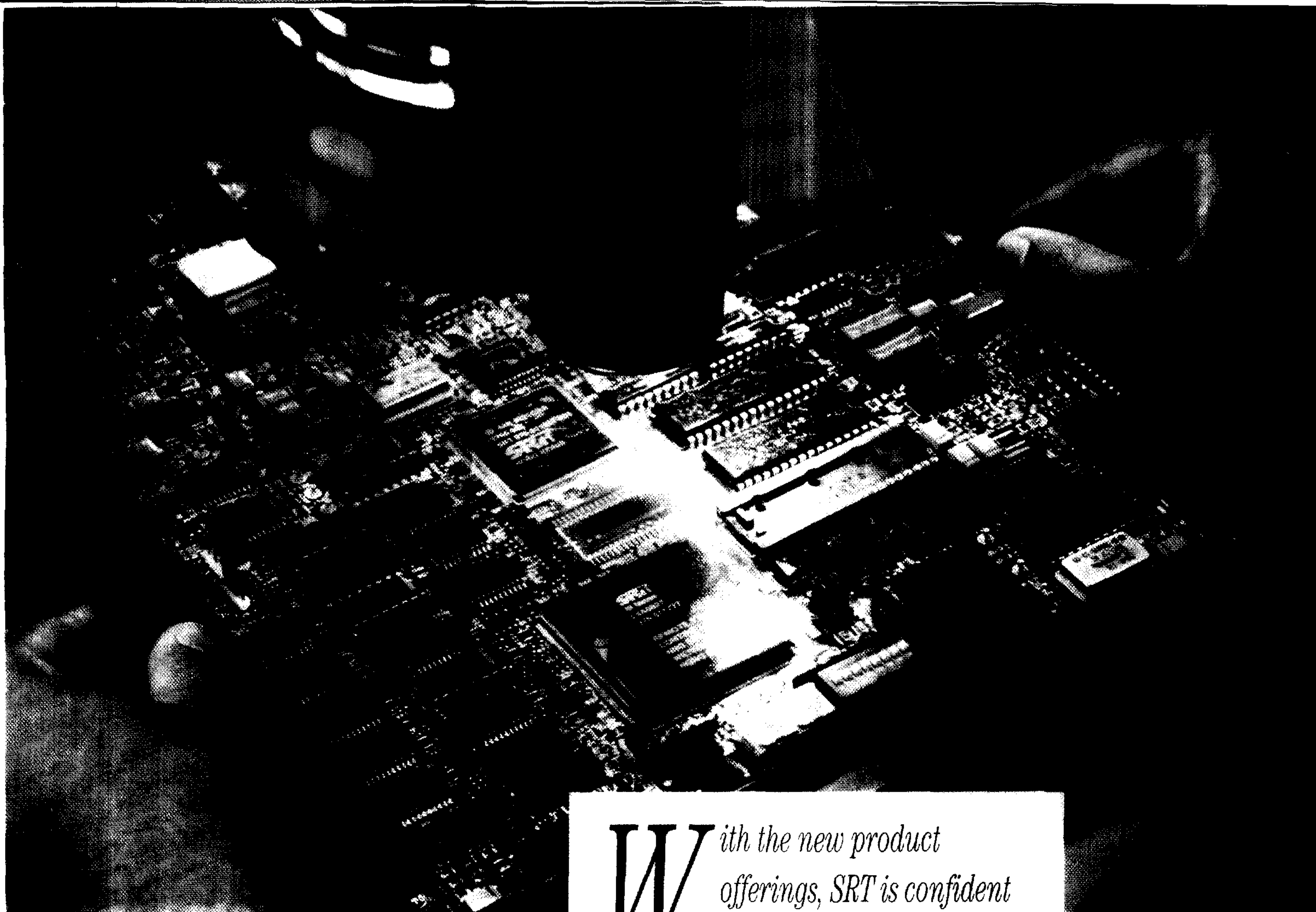
1995 was a year of solid growth, with the inauguration of a major new facility, the unveiling of new products and a 33% increase in revenue which reached $143 million. These noteworthy accomplishments were diminished, however, by the fact that we were not able to enhance the company's profitability this year over last. Profits were essentially flat at $14.6 million compared with $14.5 million in 1994. We had anticipated that the opportunity for profit growth would be tempered to some degree by the planned major investments and activities taking place in 1995. These included the start of full scale production of the SLIM outstations, continued initiatives to bolster our sales and marketing efforts, and the construction of our new facility in Kanata. Early in the fiscal year we stated that most of our growth in profits would occur during the second half. This was proven correct, but clearly it took us longer than anticipated to achieve the margins we know the SLIM can produce. The result was a bottom line performance which was below expectations.



W. Ronald Couchman

Telecom '95
Our New Products

Last October, we attended the Telecom '95 conference in Geneva. Held every four years, the Telecom trade show is sometimes called the Olympics of the telecommunications industry. SRT's plan was to use this world stage to introduce our new product lines. It is a credit to the diligent work and perseverance of our research and development



With the new product offerings, SRT is confident that it has reinforced its position as the world's leading supplier of TDMA wireless point-to-multipoint products and systems.

group that we presented the broadest range and most technologically advanced inventory of new products since the SR500 itself was first introduced to the market. In light of the solid success of the SR500 series—a success around which this firm is based—it is not surprising that all of our new products are firmly linked to it and are designed to both extend and complement it.

At Telecom '95, we unveiled the Wireless Loop Subsystem to serve as the "last mile" solution in rural regions; the 10.5 GHz SR500-s for urban applications; ISDN modules for basic rate transportation; and we introduced the Micro II Outstation—the lowest-cost, smallest, full-featured SR500-s outstation. Each extends the range of telecommunications applications that we can serve in markets we are very familiar with. Customer reaction to SRT's involvement in Telecom '95 was excellent. Our products were very favourably received and our reputation as a world-class company at this important event was unquestionably enhanced.

It is interesting to note that four years ago, in 1991, when we participated in Telecom '91, our manufacturing facilities were one quarter the size they are today. Our sales at that time were a third of their present level and our staff was less than half the present number. The Company has grown and its product range is now further expanding to produce future growth.

These new products, the result of several years of R&D effort, will be introduced to selected customers in 1996 and are expected to begin to make significant revenue contributions in 1997. Being an integral part of the SR500-s family and serving SRT's traditional customer base, they offer the opportunity to increase SRT's revenues substantially in a market we understand well.

With these new product offerings, SRT is confident that it has reinforced its position as the world's leading supplier of TDMA wireless point-to-multipoint products and systems.

Offering Businesses Solutions for Data Transfer & Internet Access

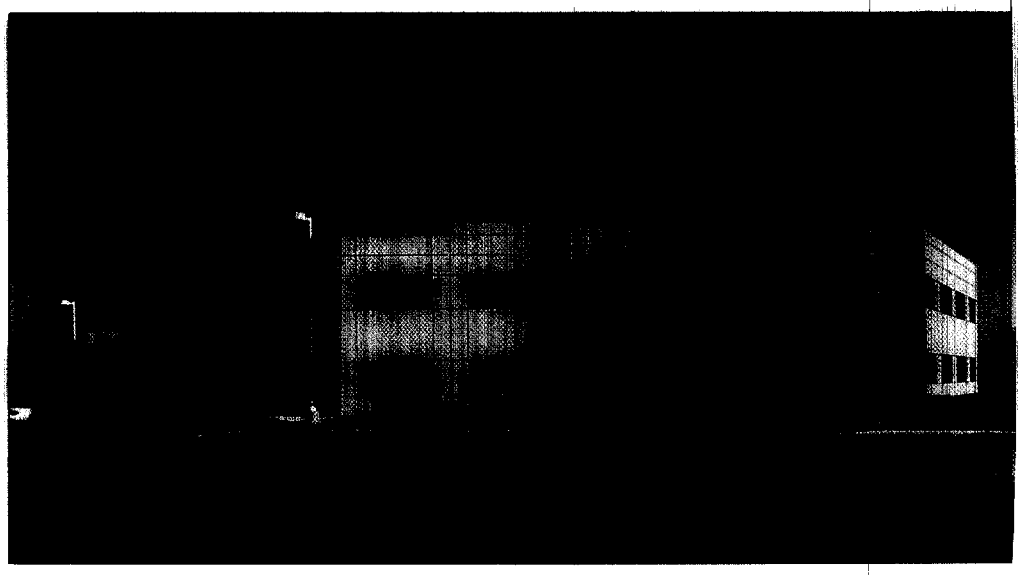
SR Telecom has largely come to be known and respected as a rural telephony equipment and system supplier. It is a reputation that only tells part of the story. We also provide businesses and industrial concerns with wireless systems that can transport critical data between scattered locations.

SRT has long had systems installed in urban centres in many parts of the world. However, our potential markets in this type of application have been limited. With the introduction of our ISDN modules and the 10.5 GHz option for the SR500-s, we are able to move confidently into the corporate information technology sector.

The introduction of the new ISDN module this year coincides neatly with the exponential growth of the Internet the world over. The ISDN module used in conjunction with the SR500-s, transports basic rate ISDN signals to create LANs, WANs and MANs for commercial clients. Many of these businesses are also potential customers for the new 10.5 GHz SR500-s, and provide SR Telecom with the opportunity to capitalize on the trends of privatization and deregulation which our Chairman, Paul Dickie, addressed in the Chairman's Message.

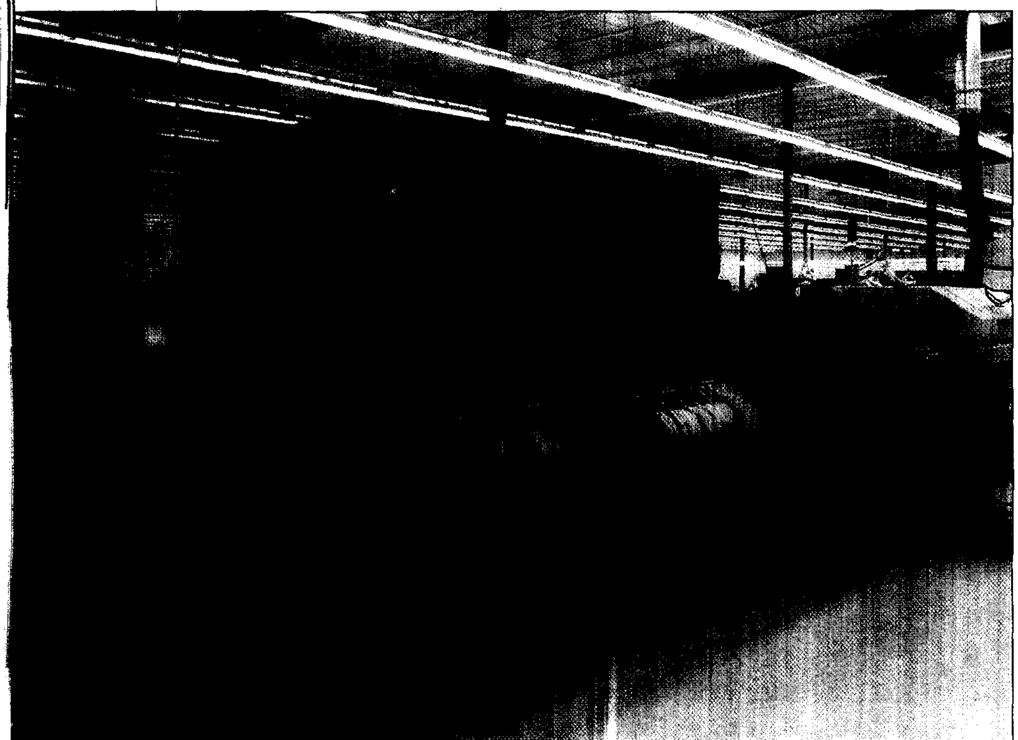
A New Facility

Late in the third quarter, SR Telecom opened a new 94,000 square foot facility in Kanata - the high-tech suburb of Ottawa and the home of many of the leading telecommunications manufacturing companies in Canada. The Kanata plant will be a complementary site to our head office in St. Laurent and encompasses both manufacturing and R&D facilities. It was just over a year ago that the St. Laurent site was itself completely renovated and expanded to include the building next to it. This visible evidence is an indication of the rate at which your company is expanding.



SRT—Kanata

The addition of the plant in Kanata provides the added capacity to properly manage our continuing growth. SRT has always followed a prudent path in making the transition from a small to a medium size company. Kanata is a major step in this transition and will help accommodate the added sales and revenue which is fully expected in 1996 from the success of our SLIM products. When fully expanded, the new manufacturing facility is projected to account for about 50% of our production output. At year end, Kanata was firmly on stream, employing 180 people and delivering complete SR500-s systems.



Kanata's facilities include the latest manufacturing methods, such as this surface mount technology assembly line.

Assuring Quality

With the opening of the Kanata facility, we created a single procedure system plan for both our SR Telecom plants. This means that both plants work to the same set of procedures and standards ensuring optimum efficiency and co-ordination.

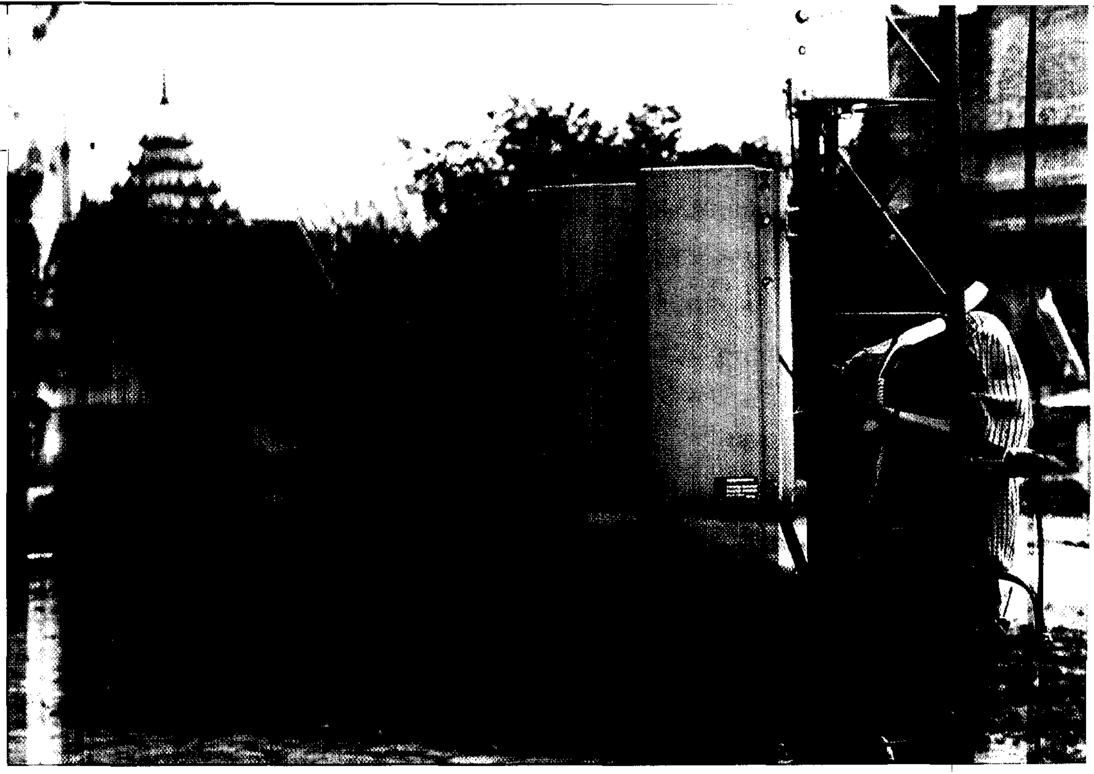
The ISO standards are an internationally recognized quality system and I discussed them at some length in our 1993 and 1994 Annual Reports. They provide companies like SR Telecom with a globally recognized system on which to base its quality assurance procedures. In addition to our commitment to follow ISO standards, we have also reached a high level of absolute quality. Based on a measurement of defects in parts per million (ppm), our St. Laurent manufacturing site has now achieved world-class quality levels. In a measurement system where anything below 1000 ppm is considered to be world-class, we have recently reached a defect level performance of below 500 ppm.

Research & Development

Research & Development will always be the key to SRT's future. Our products are the result of the efforts of our engineering staff. In 1995 SRT invested $11.5 million in R&D expense and another $1 million in R&D capital equipment to expand our R&D facilities in St. Laurent and open new facilities in Kanata. Combined, these figures represent a 19% growth over 1994 levels.

Several years of SRT's research and development culminated in the introduction of four important new products in 1995. As I have outlined above, the new products complement the SR500 family and offer our customers new features to maintain a leading position in telecommunications technology.

Customers and shareholders of SRT alike expect our company to maintain a certain dynamism and growth. Working with our customers, we can manage our growth and ensure we are on the cutting-edge of this dynamic industry. We therefore expect our investment in research and development to significantly increase once again in 1996.



Technician tests new SLIM installation north of Bangkok.

Sales & Marketing

The administrative change to our sales and service group, dividing the world into three geographic regions, continued to provide the desired results. Operations are closer to our clients, giving us the ability to provide an optimum level of sales and service. This will undoubtedly give SRT an edge as we win larger contracts and further widen our customer base. In 1995, we received a $5.5 million contract to carry out engineering services for AT&T International (Saudi Arabia). The contract was for the definition and design work associated with the first phase of the $75 million, multi-year purchase agreement signed earlier in the year under which SRT will supply the SR500-s for use in the subscriber radio systems portion of the "TEP-6" project in the Kingdom of Saudi Arabia. It is a measure of SRT's growth that the Saudi contract, the largest single order in SRT's history, will not likely ever amount to more than 7 or 8% of SRT's total sales in any one year. Delivery of these systems began in the fourth quarter of 1995 and will accelerate later in 1996 and 1997.

Once again we received many new orders from both old and new customers in China. In 1995, shipments to China continued to account for a significant portion of SRT's total revenue with deliveries being made to many customers. SRT now has more than 60 clients in China and maintains sales and service offices in Beijing and Shanghai.

A $27 million expansion contract from the Rural Telephone Service Company (RTS) of Thailand was also received. The order called for the supply of SR500-s products to the Telephone Organization of Thailand (TOT). This classical example of "repeat business" from an earlier 1994 contract worth $54 million brings the RTS contract value to $81 million. Our expansion order will provide service to an additional 1,800 towns and villages in Thailand, with more than 25,000 additional telephone lines.

From the Americas, SRT received numerous orders for the SR500 family in 1995. Systems were installed in Peru, Paraguay, Chile, Haiti and the Bahamas.

We continue to view this sustained growth in all corners of the world as a highly encouraging indicator of the company's long term prospects. To a large degree, it is the result of the acceptance and credibility that SRT and its products have achieved in a dynamic and competitive market place.

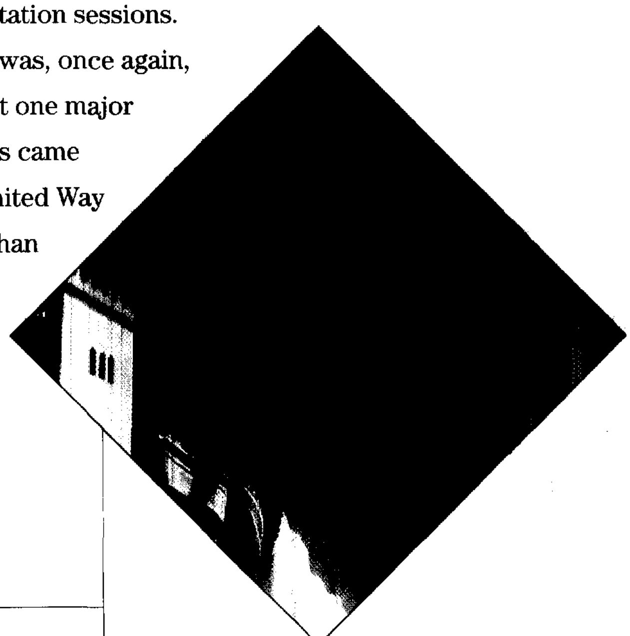
Survey work proceeds on the TEP-6 project in Saudi Arabia.

Human Resources

SR Telecom is developing more and more experience as a larger employer of skilled workers. As a result, we are increasingly involved in employee programs, training and scholarships and in 1995 the company supported two Quebec universities with scholarships in Engineering. The expanded training program in 1995 included such things as training capsules for managers, "lunch 'n learn" programs and expanded new employee orientation sessions.

The SRT employee social club was, once again, very active. They sponsored at least one major event per month and our employees came through in the annual Centraide-United Way campaign with results 36% higher than our objectives.

Congratulations to all!



OUTLOOK

The exceptional market success of our SR500 product range is forecast to continue. Overall growth in 1996 is expected to be in line with our average of 30% per annum achieved during the last 8 years. Our profitability is forecast to improve accordingly. There are many major opportunities on the horizon but each requires a strong focus and dedication to bring home the orders. We expect that our growth will once again be stronger in the second half of the new year given the pattern of business in view.

The marketing of new products, particularly in the wireless sector, has evoked a great deal of promotion and anticipation within the telecommunications industry–sometimes at too early a stage. SRT is devoting a considerable amount of its resources to bringing its new products to market and we will continue to follow the measured and prudent plan which we believe will set us on the road to solid additional, profitable growth in future years. Through 1996 we will concentrate on field trials and the establishment of sales and support networks. As such, we are not contemplating any significant revenue contribution from these new products during the current fiscal year (1996).

We expect a similar geographical distribution of sales to 1995 with about one half coming from Asia-Pacific and the balance approximately equally shared between the other two regions (The Americas region; the Europe, Middle-East and Africa region). While virtually all of SRT's shipments are exported, it is also noteworthy that the Canadian market for our products continues at a steady pace. While small in any one year by today's standards, it is still very significant when sales are accumulated over several years and as a glance at the world map in our St. Laurent HQ indicates, Canada remains one of the top 10 installed-base markets for SRT products.

Royal Canadian Mounted Police (RCMP) members underline SRT's pride as a Canadian leader in telecommunications at Telecom '95 in Geneva.

In summary, 1995 was a year of significant change for SRT while 1996 should be more a year of consolidation with improving profitability. We see a continuing strong demand for our products and services from all corners of the world and remain dedicated to serving the needs of our growing list of customers. This dedication has brought us success in the past and will, we are confident, bring success in the future.

W. Ronald Couchman

President & Chief Executive Officer

five year financial review

	1995	1994	1993	1992	1991
Operating Results ($000's)					
Sales	**$ 143,112**	107,976	91,397	63,285	47,311
Earnings from continuing operations before income taxes, equity income (loss), non-controlling interest and discontinued operations	**$ 20,143**	20,926	15,168	7,544	3,729
Earnings for the year	**$ 14,631**	14,533	10,226	5,343	3,154
Financial Position ($000's except ratio)					
Total assets	**$ 140,275**	125,070	64,054	43,746	37,792
Working capital	**$ 52,707**	64,181	19,621	11,478	10,889
Long-term debt	–	2,561	2,655	2,767	2,850
Net cash provided by operating activities	**$ 3,626**	3,434	1,858	4,957	9,894
Capital expenditures	**$ 22,227**	7,626	6,929	2,490	1,731
Shareholders' equity	**$ 95,084**	83,894	33,476	25,883	21,364
Long-term debt to equity ratio	–	0.03	0.08	0.11	0.13
Interest coverage	**35.37**	26.77	16.05	15.10	6.38
Per Share Data ($)					
Earnings for the year (1)	**0.41** (2)	0.42 (2)	0.32	0.17	0.10
Book value per share (1)	**2.67** (2)	2.36 (2)	1.04	0.81	0.68
Dividends paid per share (1)	**0.12**	0.10	0.10	0.04	0.01
Shareholders' Data					
Number of shares outstanding (000's) (1)	**35,652** (2)	35,477 (2)	32,205	31,980	31,653
Number of registered shareholders	**446**	414	328	453	525
Market Price Range (C$ per share) (1)					
High	**16.25**	15.50	13.75	4.00	2.00
Low	**11.75**	10.26	3.45	1.62	0.92

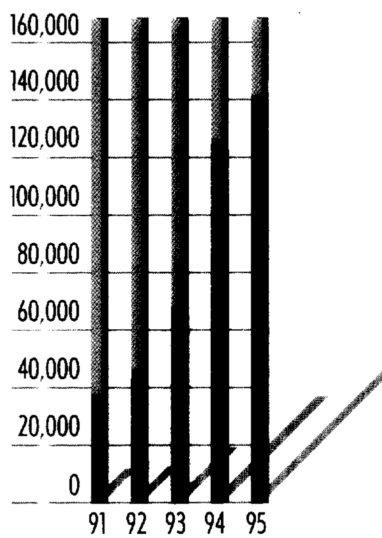
(1) *All references to number of shares or value per share have been adjusted to reflect a two for one stock dividend declared and issued in 1993.*

(2) *After giving effect to the common share issue in April 1994 of 3,200,000 shares for a gross consideration of $40,000,000 (net $38,802,000).*

management's discussion and analysis

General

The consolidated entity is comprised of SR Telecom Inc., Apollo Microwaves (90% ownership), SR Telecom Subic Inc., Philippines (100%), SRT de Mexico (100%), SR Telecom (Shanghai) Co. Ltd. (100%), and TDMA Services Company Limited, Thailand (100%). Equity holding divested in 1995 (CTI Celtek) was not integral to operations and did not represent vertical or horizontal integration and as such, no economies of scale have been lost.



Total Assets
(in thousands of dollars)

Consolidated Revenues

For the year ended December 31, 1995, consolidated revenues from operations were $143.1 million compared with $108.0 million in 1994, an increase of 32.5%. The SLIM product represented 55% of this total and other manufactured equipment accounted for 27%. The balance of revenue came from sales of resale equipment, engineering and installation services, as well as microwave components, primarily from our principal subsidiary company, Apollo Microwaves.

Apollo's sales in 1995 were $8.2 million, an increase of 30% over 1994, with the increase split almost equally between inter-company and third party sales.

Consolidated fourth quarter sales in 1995 were $44.4 million, exceeding by 20% the previous highest quarterly level of $37.0 million, achieved in Quarter four of 1994.

Consolidated Earnings

Consolidated net earnings for the year ended December 31, 1995 were $14.6 million compared with $14.5 million in 1994. The lack of growth in earnings was not consistent with the 32.5% increase in revenue. The margin was adversely affected by production problems associated with the start up of the SLIM product line, as well as increased selling, marketing and R&D expenses.

Earnings for the fourth quarter were $5.9 million compared with $4.4 million, an increase of 34% over last year.

Apollo's earnings for the year, $1.2 million or 14.6% of sales, were approximately the same as in 1994.

In 1995, the Company sold its equity holding in CTI Celtek and realized a gain on the sale of $152,000.

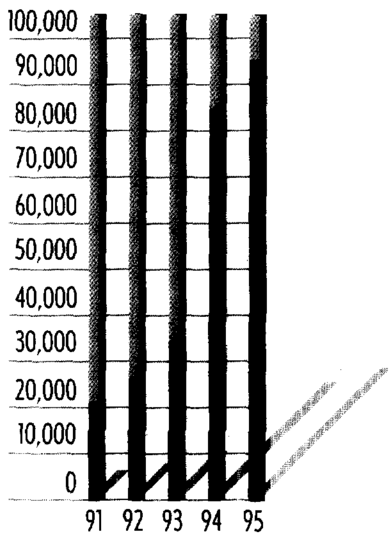
DIVIDENDS

Cash dividends equivalent to $4.3 million (or $0.12 per share) were paid during fiscal 1995. The decision on whether or not to issue such dividends is made each quarter based on results and the continuing prospects for the Company's business.

COST OF SALES & ADMINISTRATION

Selling and administrative expenses increased in accordance with the Company's plans during 1995. Cost of sales, as mentioned previously, was adversely affected by production issues associated with the introduction of the new SLIM product line.

Net short term interest income for the year was $434,000. In 1994, the corresponding figure was $1,042,000. Interest on long term debt in 1995 was $71,000 ($287,000 in 1994) and represented mortgage interest from the beginning of the year until the loan was repaid, at maturity, in March of 1995.



Shareholders Equity
(in thousands of dollars)

LIQUIDITY & CAPITAL RESOURCES

Cash flow from operations in 1995 was $3.6 million compared with $3.4 million in 1994.

The Company currently has available a revolving operating credit line of $20.7 million for which no security is required. Net borrowings at December 31, 1995 were $6.0 million ($7.6 million at December 31, 1994). In addition to this facility, a bank credit line of $35.0 million is available and applicable exclusively against letters of guarantee normally required to secure advance payments, performance or warranty obligations in foreign countries. These instruments are usually secured by guarantees issued in favour of the bank by the Export Development Corporation.

The debt to equity ratio improved marginally to 0.44 : 1, compared with 0.45 : 1 at the end of 1994 as a result of repayment of the long term debt.

Retained earnings, after reduction for dividends of $4.3 million, increased by $10.4 million while liabilities increased by $4.0 million. Shareholder's equity was $95.1 million, or $2.67 per common share at December 31, 1995, compared with $83.9 million, or $2.36 per common share in the previous year, due primarily to cash requirements to fund the building and equipment for the Kanata plant. Working capital was $52.7 million at December 31, 1995, compared with the 1994 figure of $64.2 million.

The Company is confident it will continue to settle its obligations in a timely manner and maintain financial capacity to provide for planned growth. Funds required to finance capital expenditures and operating requirements will be taken for the most part from internally generated sources.

Accounts Receivable

Accounts receivable as of December 31, 1995 were $49.7 million compared with a restated balance of $42.8 million at the end of 1994.

It should be noted that the contract holdbacks of $9.1 million ($5.2 million in 1994) have been segregated from Accounts Receivable, and are now more accurately shown as long term assets.

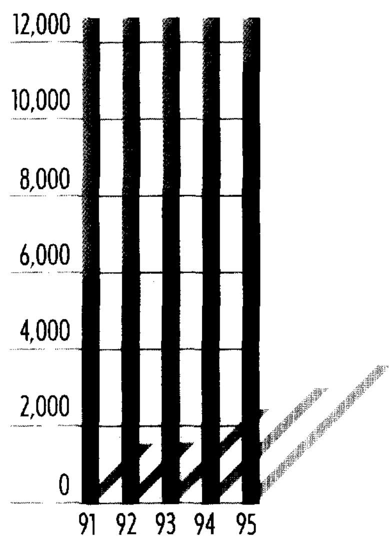
The term and percentage of holdbacks varies with each contract. Generally, they range between 5% and 10% and are payable upon final acceptance of the equipment, usually 12 to 24 months after shipment.

Accounts Payable

Trade accounts payable rose to $38.2 million in 1995, up from $21.1 million in the previous year which is entirely related to the increased level of business the Company has experienced.

Inventories

Inventories rose from $23.6 million on December 31, 1994 to $40.6 million at the end of 1995. The increase, which is within plan, was intended to provide an operating inventory for the new Kanata, Ontario plant, to support the increased sales volume and to enable the Company to offer shorter lead times to its customers.



Gross R&D
(in thousands of dollars)

Capital Expenditures

Capital additions were $22.2 million in 1995 ($7.6 million in 1994). Included in the additions were the cost of the Kanata, Ontario, plant which consists of land and a new 94,000 square feet building equipped in a fashion similar to the St. Laurent plant, and the purchase of a 25,000 square feet building in Pointe Claire, Quebec to house the operations of Apollo Microwaves. Additionally, the Company installed equipment for Production and Research and Development in its St. Laurent, Quebec HQ, and refurbished new leasehold offices in Manila which are intended for consolidation of the sales and engineering operations in the Asia-Pacific region.

The Company is planning a reduced capital expenditure program in 1996. The forecast is for $14.3 million directed primarily to production equipment where there is a plan to further enhance automation of the testing process. There are also continuing capital expenditure programs directed towards R&D where it is important that we provide state of the art development equipment to keep our competitive lead.

Foreign Currency

In 1995, approximately 60% of the Company's material purchases and 70% of the revenues were in U.S. dollars, with the balance in Canadian funds. Currency exposures are evaluated regularly and where warranted hedge mechanisms are considered to minimize the impact of fluctuations.

Risks and Uncertainties

SR Telecom's only significant financial exposures relate to foreign currency transactions and credit risk. The financial risk management strategy is to cover the exposures through low risk hedging strategies at the time of an order.

The increasing value and competitive nature of contracts awarded to the Company have required the offering of extended trade terms, increasing overall credit risk. The Company mitigates this risk by requiring virtual assurance of collection prior to order acceptance. This is done largely through the use of letters of credit, receivables insurance, and non-recourse discounting. The Company has no interest risks or commodity price exposures.

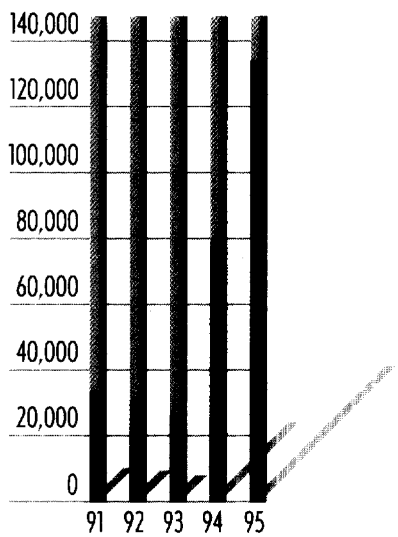
Off balance sheet financial instruments are used solely for hedging purposes.

Foreign Operations

The Company has subsidiaries and branch offices on four continents. Foreign operations consist entirely of sales and engineering offices and repair centres.

A significant amount of sales are managed through our Asian offices centered in Manila, the Philippines, in Bangkok, Shanghai and Beijing.

Continued expansion of these activities is anticipated as market opportunities present themselves.



Backlog
(in thousands of dollars)

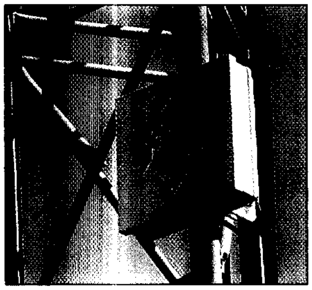
Backlog

The Company's backlog of sales orders at the end of 1995 is $134 million, compared with $79 million at the end of 1994. Included in the current backlog are approximately $70 million of orders scheduled for shipment in 1996. The balance consists primarily of an order with AT&T for shipment to Saudi Arabia over the next five years.

Outlook

The Company has achieved an average compound annual revenue growth for the last several years of over 30%. In the near term and based on existing backlog and the observed demand for the Company's products, it is reasonable to expect that revenue will continue to maintain a similar average compound growth rate. Such revenue growth may not necessarily be uniform from year to year and should not be expected to be smooth from quarter to quarter. In fact, it is anticipated that in 1996 the predominance of shipments will occur in Quarters three and four. Earnings are expected to follow a similar pattern with the forecast overall improvement of some 40% taking place in the second half of the year.

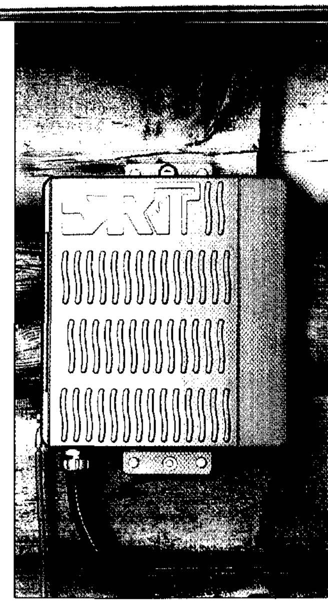
Research and Development



The high ight of 1995 was the introdu tion of four major ne w products. These products are the result of many years of concentrated research and development effort and keep SRT at the forefront of technology in its chosen market niche. Each of these products addresses a different market segment and is firmly linked to our core business which is based on today's SR500-s product range. Each product is an innovation in its field and makes use of the latest developments in component and systems technology.

- **The SR500-s Wireless Loop Subsystem.** Consisting of a wireless base station and a number of wireless subscriber terminals, this new product is used to connect SRT's SLIM outstations directly to the subscriber's premises. In effect, it replaces the "last mile" of wire that is often required when one of SRT's SLIM outstations serves a cluster of subscribers. This allows telephone companies to avoid the expensive maintenance and installation costs associated with wired connections. This product will have the effect of increasing SRT's net revenue on most of its rural telephony projects and is expected to be a very attractive offering to its customers.

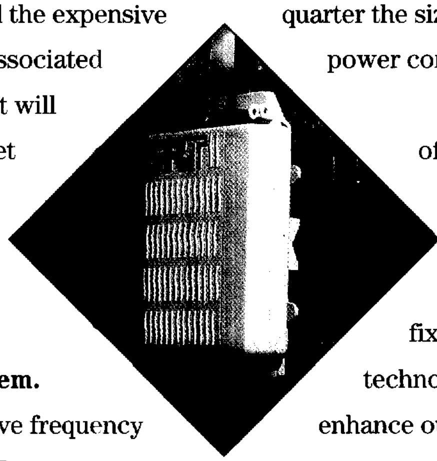
- **The 10.5 GHz SR500-s System.** Operating at a much higher microwave frequency than other SRT products, the 10.5 GHz system enables the SR500-s to bring Fixed Wireless Access, both voice and data, directly to buildings (Radio to the building—RTTB) or to serve as a radio entrance link between urban and rural settings. Complete with an innovative Antenna Integrated Module (AIM), this product will be an excellent solution to many specialized urban telecommunications needs where lower frequencies are in short supply.



Left:
10.5 GHz AIM
Above:
SR500-s Wireless Loop Terminal
Below:
Micro II

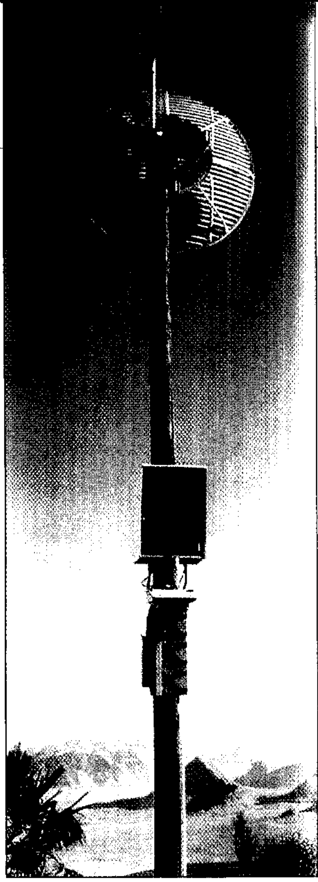
- **ISDN.** The new ISDN module is used in conjunction with the SR500-s to transport basic rate ISDN signals to create MANs and WANs. The module supports many of the latest telecommunications services including Group 4 fax, video conferencing and multimedia applications. Business uses especially in conjunction with the 10.5 GHz SR500-s are foreseen.

- **Micro II.** SRT's first, and highly successful, Micro-outstation was introduced in Geneva in 1991 and was designed to serve locations with no more than two telephone subscribers. The Micro II is a new product replacing the original Micro. It offers the full range of subscriber services including telephony, data and ISDN in a briefcase-size package about one-quarter the size of the original Micro, with lower power consumption.



1995 saw significant expansion of our R&D expenditures and we are planning further expansion in 1996 both in St. Laurent and Kanata. Our focus remains firmly fixed on the creation of new wireless technologies and products which will enhance our position of technical leadership.

SRT around the world

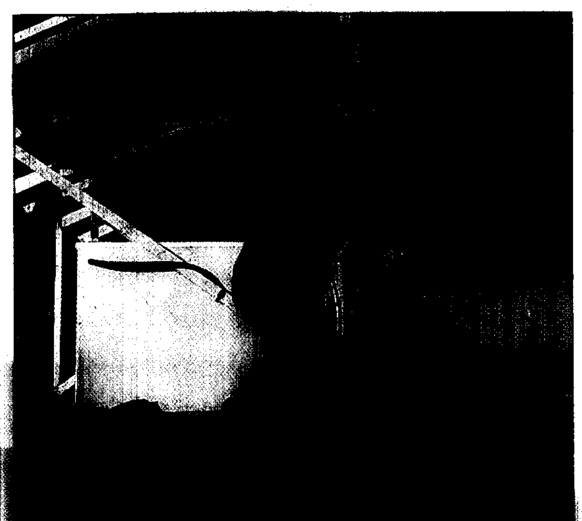


Jordan

An SR500 repeater positioned over the Wadi Rum, site of the filming of *Lawrence of Arabia*.

Bolivia

An SRT installation at a remote Bolivian location.



Sa[illegible]

SR[illegible]

tele[illegible]

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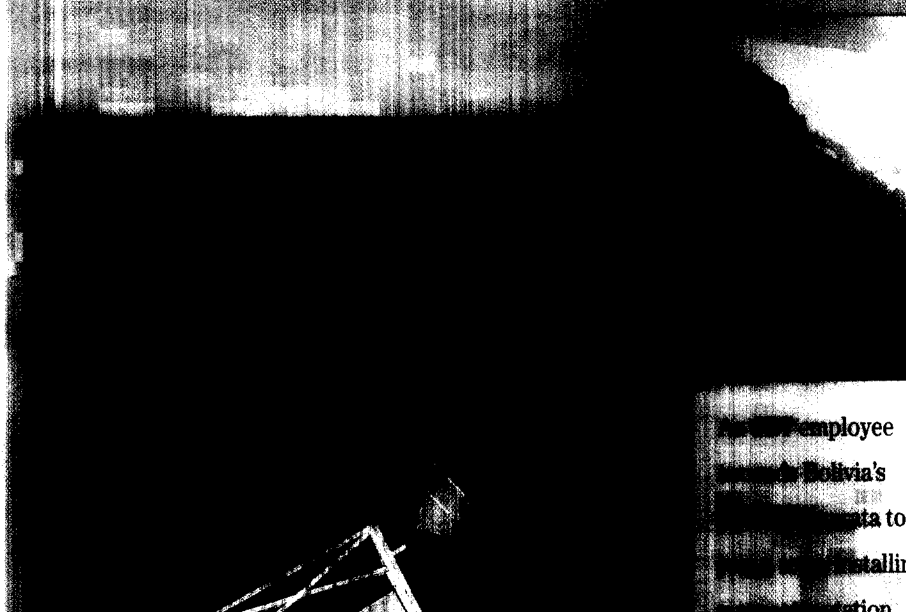
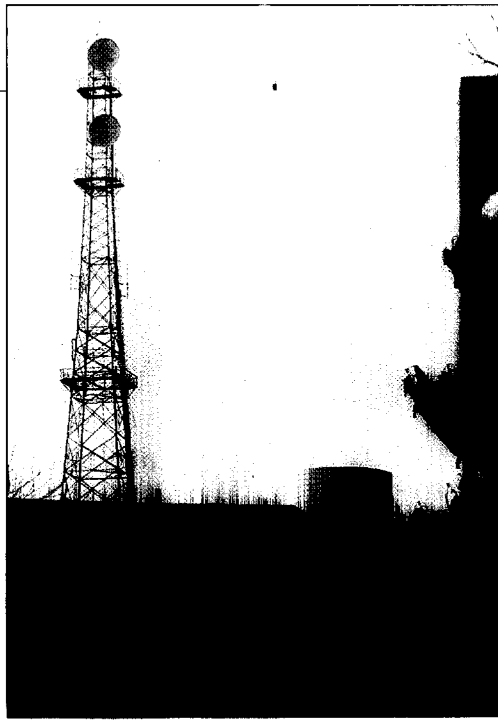


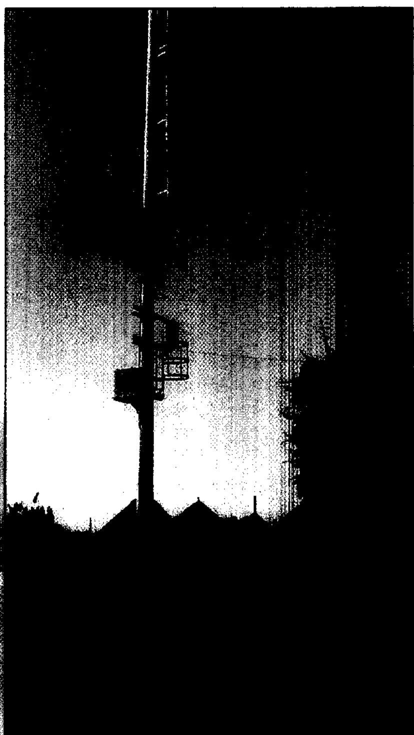
[illegible]employee [illegible] Bolivia's [illegible]ata to [illegible]stalling [illegible]ation.

China

SRT provides high quality telecommunications services to the city of Xong Wei in Ningxia province.



The curious watch as testing proceeds on a new SLIM installation in Ningxia province.

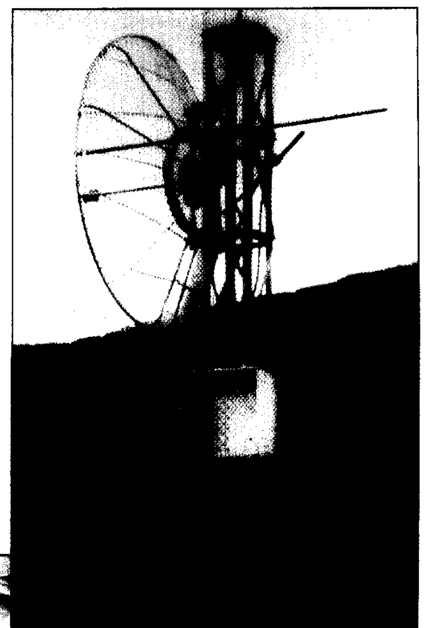


South Africa

An SRT micro out-station brings high quality telephone service to a South African village.

Greece

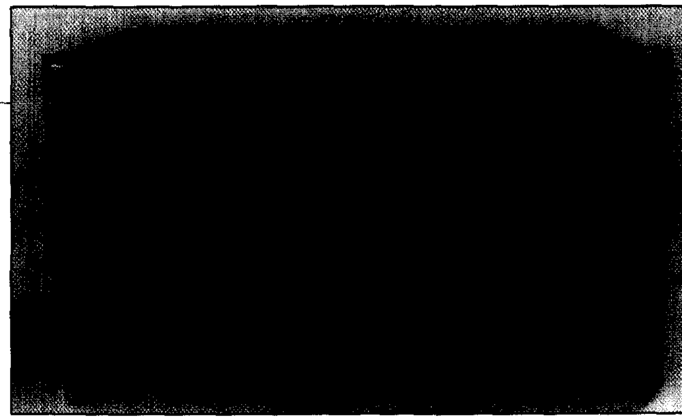
A monastery in northern Greece is connected to the world with the SR500 system.



Geneva

The SRT exhibit at Telecom '95 provided the world's telecommunications industry with an overview of the company's new products.

Apollo Microwaves Limited



A satellite earth station alarm and control system designed by Apollo.

Apollo continued its pattern of growth in 1995 with an increase in revenues of approximately 30% compared to 1994, with the bulk of the growth coming from customers in the United States. Profits for the year remained essentially flat largely as a result of a 60% increase in R&D expenditures. While 95% of the products sold were for applications outside Canada, a number of Apollo's customers are Canadian-based, including SR Telecom. Apollo now maintains a dedicated production line for SRT and in 1995 provided specialized filters and ferrite components for use in its SLIM and other product categories.

In 1995, the Company moved to a newly acquired 25,000 square foot facility in Pointe Claire, Quebec. The building sits on a 116,000 square foot site, offering ample space for future expansion.

An important event during the year was the selection of Apollo by Loral Corporation to manufacture and integrate a significant portion of the key components for use in the satellite earth station portion of the Tri-Band defence satellite communications program. As a result of the new devices developed for this project, additional commercial spin-off work is anticipated in the future.

The DBS (direct broadcast to home) television projects now underway continued to provide significant business with Apollo being selected as a key supplier by two of the major system builders:

- STS, a division of California Microwave—delivery of switching and combining networks to Tee-Comm Electronics for the ExpressVu DBS program.
- Hughes Communications—supply of switching and combining networks for DBS earth station requirements in South America.

We expect that DBS applications will continue to be an important source of revenue growth for Apollo in the coming years.

Last year we reported that we had signed a supply agreement with Vertex, the largest U.S. based manufacturer of antennas for satellite communications. We are pleased to report that this agreement resulted in significant deliveries being made by Apollo in 1995 and we expect this source of revenue to continue.

The firm was also chosen by a subsidiary of Daimler Benz Aerospace to produce specialized filter networks for the eurofighter program. Such international recognition of Apollo's technical expertise is another key factor for its future prospects.

Outlook

Apollo expects another year of across the board growth. We are further encouraged by the new opportunities that the technical spin-offs of some of this year's projects and the results of our R&D efforts will provide. Backlog remains at a very healthy level and we are looking forward to a further expansion of our markets based on the growing recognition of the value we have to offer our customers.

management's statement of responsibility

The financial statements and other information contained in this Annual Report are the responsibility of Management. They have been prepared in accordance with generally accepted accounting principles applied and are deemed to present fairly the consolidated financial position, results of operations and changes in financial position of the company. Where necessary, Management has made informed judgments and estimates of the outcome of events and transactions, with due consideration given to materiality.

As a means of fulfilling its responsibility for the integrity of financial information included in this Annual Report, Management relies on the company's system of internal control. This system has been established to ensure, within reasonable limits, that assets are safeguarded, that transactions are properly recorded and executed in accordance with Management's authorization and that the accounting records provide a solid foundation from which to prepare the financial statements. It is recognized that no system of internal control can detect and prevent all errors and irregularities. Nonetheless, Management believes that the established system provides an acceptable balance between benefits to be gained and the related cost.

The company's independent public accountants are responsible for auditing the financial statements and giving an opinion on them. As part of that responsibility, they review and assess the effectiveness of internal accounting controls to establish a basis for reliance thereon in determining the nature, timing and extent of audit tests to be applied. Management emphasizes the need for constructive recommendations as part of the auditing process and implements a high proportion of their suggestions.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting solely of outside directors, which reviews the financial statements and reports thereon to the Board. The Committee meets periodically with the independent public accountants and Management to review their respective activities and the discharge of each of their responsibilities. The independent public accountants have free access to the Committee, with or without Management, to discuss the scope of their audit, the adequacy of the system of internal control and the adequacy of financial reporting.

Management recognizes its responsibility for fostering a strong ethical climate so that the company's affairs are carried out according to the highest standards of personal and corporate conduct. This responsibility is characterized in the code of business conduct which is publicized throughout the company. Employee awareness of this code is achieved through regular and continuing written policy statements. Management maintains a systematic program to ensure compliance with these policies.

W R Buchanan

President and
Chief Executive Officer | **Treasurer** | **February 5, 1996**

auditors' report

To the Shareholders of SR Telecom Inc.

We have audited the consolidated balance sheets of SR Telecom Inc. as at December 31, 1995 and 1994 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants

Montréal, Québec
February 5, 1996

consolidated balance sheets

SR TELECOM INC. *(incorporated under the Canada Business Corporations Act)*

AS AT DECEMBER 31, 1995 AND 1994

(in thousands of dollars)	**1995**	1994
Current assets		
Short-term notes receivable	**$ –**	$ 31,187
Accounts receivable (Note 2)	**49,673**	42,764
Income taxes receivable	**531**	255
Inventories	**40,616**	23,582
Prepaid expenses and deposits	**2,827**	1,059
Investment (Note 3)	**–**	1,042
Investment tax credits	**624**	1,897
	94,271	101,786
Accounts receivable - long-term (Note 2)	**9,142**	5,224
Property, plant and equipment (Note 4)	**34,152**	16,354
Other assets (Note 5)	**2,710**	1,706
	$ 140,275	$ 125,070
Current liabilities		
Bank indebtedness (Note 6)	**$ 171**	$ 6,638
Accounts payable	**38,222**	21,075
Customer advances	**3,171**	7,331
Current portion of long-term debt (Note 7)	**–**	2,561
	41,564	37,605
Deferred income taxes	**3,318**	3,333
Non-controlling interest	**309**	238
	45,191	41,176
Contingencies (Note 11)		
Shareholders' equity		
Capital stock (Note 8)	**58,353**	57,523
Retained earnings	**36,731**	26,371
	95,084	83,894
	$ 140,275	$ 125,070

Approved by the board

P.A. Dickie
Director

W R Bowman
Director

consolidated statements of earnings

YEARS ENDED DECEMBER 31, 1995 AND 1994 *(in thousands of dollars, except per share amounts)*	1995	1994
Sales	**$ 143,112**	$ 107,976
Cost of sales and selling and administrative expenses	**112,063**	81,137
Research and development expenses (Note 10)	**6,600**	3,540
Amortization	**4,821**	3,128
Interest on long-term debt	**71**	287
Other interest expense	**515**	525
Interest income	**(949)**	(1,567)
Gain on disposal of equity investment (Note 3)	**(152)**	–
	122,969	87,050
Earnings before the following	**20,143**	20,926
Income taxes (Note 9)		
Current	**5,440**	5,855
Deferred	**97**	398
	5,537	6,253
Equity income (loss)	**126**	(27)
Non-controlling interest	**(101)**	(113)
Net earnings	**$ 14,631**	$ 14,533
Net earnings per share	**$ 0.41**	$ 0.42

consolidated statements of retained earnings

YEARS ENDED DECEMBER 31, 1995 AND 1994 *(in thousands of dollars)*	1995	1994
Balance, beginning of year	**$ 26,371**	$ 16,515
Net earnings	**14,631**	14,533
Dividends paid	**(4,271)**	(3,479)
Share issue costs, net of income taxes	**–**	(1,198)
Balance, end of year	**$ 36,731**	$ 26,371